

Message Text

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ACTION TRSE-00

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COME-00 EB-08 FRB-03 INR-10 NSAE-00 USIA-06
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TO SECSTATE WASHDC PRIORITY 1879

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USADB

FOR NAC AGENCIES

PASS TREASURY FOR BRADFORD/MUNK

E.O. 11652: NA
TAGS: EAID, EFIN
SUBJECT: TWO-YEAR BONDS OF 1978

REF: (A) MANILA 2308, (B) MANILA 2708

1. ON APRIL 1, 1976, ADB ISSUED TWO-YEAR OBLIGATIONS IN
PRINCIPAL AMOUNT OF US \$50,000,000. THESE 1976 BONDS WILL
MATURE ON APRIL 1, 1978.

2. BANK NOW PROPOSED TO OFFER TWO-YEAR OBLIGATIONS TO
REPLACE THE 1976 BONDS. ACCORDING TO BANK MANAGEMENT,
SUCH AN OFFERING WILL HAVE SEVERAL ADVANTAGES: (A) IN THE
PAST, TWO-YEAR OBLIGATIONS HAVE BEEN ISSUED AT A RELATIVELY
LOW COST TO THE BANK BECAUSE COMMISSION AND OTHER SIMILAR
CHARGES ARE ELIMINATED; (B) BECAUSE MOST SUBSCRIBERS HAVE
BEEN WILLING TO "ROLL-OVER" OR EVEN INCREASE THEIR HOLDINGS,
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THESE TWO-YEAR BONDS EFFECTIVELY BECOME LONGER-TERM
BORROWINGS AT THE LOWER INTEREST RATES GENERALLY
ASSOCIATED WITH SHORT-TERM DEBT; AND (C) DMCS OF BANK
ARE ABLE TO PARTICIPATE IN BANK FINANCING THROUGH
PURCHASE OF THESE OBLIGATIONS.

3. PROPOSED OBLIGATIONS WILL MATURE ON APRIL 1, 1980

AND WILL BE OFFERED IN PRINCIPAL AMOUNT NOT TO EXCEED \$70,000,000, AN INCREASE OF \$20,000,000 OVER THE 1976 ISSUE. IT DOES NOT IMPLY A CHANGE IN THE VIEW THAT THE AMOUNT OF THE BANK'S SHORT-TERM BORROWINGS SHOULD NORMALLY BE NO MORE THAN ABOUT 10 PERCENT OF ITS TOTAL OUTSTANDING BORROWINGS. AT THE END OF 1978, THE TWO OUTSTANDING ISSUES (INCLUDING THE PROPOSED ISSUE) OF ADB TWO-YEAR BONDS WILL TOTAL \$140,000,000 AND THIS AMOUNT WILL BE ABOUT 9.2 PERCENT OF THE TOTAL OUTSTANDING BORROWINGS OF THE BANK AT THE END OF THE SAME PERIOD, IF THE PROJECTED BORROWINGS FOR 1978 OF \$410 MILLION ARE FULLY REALIZED.

4. THE OBLIGATIONS, TO BE KNOWN AS "ADB TWO-YEAR BONDS OF 1978, DUE 1 APRIL 1980" (1978 BONDS), WILL BE OFFERED AT PAR. AS IN FORMER ISSUES THE 1978 BONDS WILL BE OFFERED FOR SUBSCRIPTION TO ALL MEMBER COUNTRIES EXCEPT CANADA AND THE UNITED STATES.

5. ADB PRESIDENT WILL INFORM THE BOARD OF DIRECTORS OF THE PROPOSED RATE OF INTEREST ON THE 1978 BONDS AT OR PRIOR TO THE MEETING OF THE BOARD HELD TO CONSIDER THE PROPOSED OFFERING.

6. THE PROPOSED OFFERING WILL BE THE THIRD BORROWING BY THE BANK IN 1978; ON JANUARY 19, THE BOARD APPROVED LIMITED OFFICIAL USE

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A BORROWING OF 80 MILLION SWISS FRANC (\$39.8 MILLION EQUIVALENT), A PROPOSED BORROWING OF 20,000 MILLION JAPANESE YEN \$83.0 MILLION EQUIVALENT) WILL BE CONSIDERED BY BOARD OF DIRECTORS ON MARCH 2. (SEE REFTEL B). THE PROPOSED \$70 MILLION ISSUE OF 1978 BONDS WOULD BRING TOTAL BORROWING TO DATE IN 1978 TO \$192.8 MILLION EQUIVALENT.

7. IN REFTEL A, ADVANCE APPROVAL OF U.S. GOVERNMENT TO THIS PROPOSED OFFERING OF 1978 BONDS WAS REQUESTED PRIOR TO BOARD CONSIDERATION SCHEDULED FOR THURSDAY, MARCH 9. PLEASE ADVISE.

8. ADB DOC. R13-78 ON ABOVE SUBJECT BEING POUCHED FEBRUARY 17.
WESTCOTT

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